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MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1936

AND

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS

FOR THE YEAR ENDED DECEMBER 31, 1936

MRB
Corp. File

February 18, 1937.

To the Stockholders of
MANGEL STORES CORPORATION

The Profit and Loss account for the year ended December 31, 1936 and the consolidated balance sheet are presented herewith.

We are gratified to be able to report progress during the year which found reflection in a favorable increase in sales and net earnings.

Three important factors marked the year's progress:

1. The stock of the corporation was recapitalized, placing your company in a position to again resume dividends on the preferred stock.

2. A substantial program of remodelling store fronts, interiors and cooling systems was carried on.

3. Seven new units opened, and three old stores closed, so that now there are 109 stores in operation.

This should be reflected in still larger volume and increased earnings in 1937.

Respectfully submitted,

SOL MANGEL,
President.

EXHIBIT A

MANGEL STORES CORPORATION

AND SUBSIDIARIES

CONSOLIDATED BALANCE SHEET AS AT DECEMBER 31, 1936

ASSETS

CURRENT ASSETS:			
Cash in banks and on hand			$ 707,993.11
Sundry accounts receivable (less reserve)			28,870.33
Merchandise inventory, certified by the management as to quantities, marketable condition, and as to valuation at the lower of cost or market			971,079.92
TOTAL CURRENT ASSETS			1,707,943.36
OTHER ASSETS:			
Loans to officers, employees and others (less reserve)		$ 1,734.00	
Cash balances, certificates of participation, etc.—suspended banks (less reserve)		1,104.75	
Sundry deposits		4,685.08	7,523.83
FIXED ASSETS:			
Real estate—at values as appraised for the management in June 1932, with subsequent additions at cost, subject to mortgages shown contra	$185,370.00		
Less: Reserve for depreciation	11,727.45	173,642.55	
Furniture and fixtures, leasehold improvements, and truck—at values appraised by the management in June 1932, with subsequent additions at cost	506,005.81		
Less: Reserve for depreciation on additions subsequent to June 1932	75,527.59	430,478.22	604,120.77
DEFERRED CHARGES:			
Unexpired insurance, prepaid expenses, etc.		57,244.11	
Stationery and supplies		6,450.00	63,694.11
GOODWILL			1.00
			$2,383,283.07

LIABILITIES

CURRENT LIABILITIES:			
Accounts payable—merchandise, less discounts			$ 557,707.95
Accounts payable—expenses, etc.			217,202.09
Customers' credits			21,911.31
Mortgage installments payable within one year			2,000.00
Mortgage payable October 28, 1937			45,000.00
Reserve for Federal income taxes			23,007.89
TOTAL CURRENT LIABILITIES			866,829.24
MORTGAGE PAYABLE IN INSTALLMENTS THROUGH OCTOBER 8, 1945, LESS CURRENT INSTALLMENTS SHOWN ABOVE			36,000.00
CAPITAL STOCK AND SURPLUS:			
Convertible Preferred Stock—$5.00 Cumulative, No Par Value—stated value $25.00 per share, callable at $100.00 per share: **Authorized, issued and outstanding—17,500 shares		$437,500.00	
Common stock—Par Value $1.00 per share: *Authorized—300,000 shares **Issued and outstanding—177,500 shares		177,500.00	
Surplus—Exhibit B:			
Capital surplus	$96,422.90		
Earned surplus—including earnings of parent company since January 1, 1936	769,030.93	865,453.83	1,480,453.83
			$2,383,283.07

*105,000 shares of Common Stock, par value $1.00 per share, are reserved in connection with the conversion privilege granted to holders of the Convertible Preferred Stock.

**The issued and outstanding capital stock is shown after giving effect to the plan of recapitalization consummated by the corporation in December 1936. However, at February 17, 1937, the holders of 462 shares of the previously outstanding 6½% Preferred Stock had not yet surrendered their stock certificates in exchange for 462 shares of the new $5.00 Convertible, no par value, Preferred Stock and 1,386 shares of the new $1.00 par value Common Stock, which are held by the corporation available for that purpose.

Subject to the comments contained in the attached certificate.

EXHIBIT B

MANGEL STORES CORPORATION
AND SUBSIDIARIES
CONSOLIDATED SURPLUS—YEAR ENDED DECEMBER 31, 1936

CAPITAL SURPLUS:		
Arising from reduction in capital stock as follows:		
Exchange of 17,500 shares of convertible $5.00 cumulative preferred stock, no par value, stated value $25.00 per share for 17,500 shares of $6.50 cumulative preferred stock, no par value; the latter stock having been created through an amendment of the charter which changed the original 17,500 shares of 6½% cumulative preferred stock, par value $100.00 per share		$1,312,500.00
Exchange of 125,000 shares of common stock, Par value $1.00 per share for 125,000 shares of common stock, no par value, stated on the books at $5.00 per share	$500,000.00	
Less: 52,500 shares of common stock issued to or reserved for preferred stockholders on conversion of old preferred stock for new preferred stock	52,500.00	447,500.00
		1,760,000.00
Deduct: Deficit of parent company at December 31, 1935, transferred in accordance with resolution of Board of Directors passed at a meeting held December 12, 1936:		
Operating deficit	1,916.833.20	
Less: Surplus—special limited to payment of dividends on old preferred stock	253,256.10	1,663,577.10
Capital surplus at December 31, 1936		96,422.90
Earned surplus—including earnings of parent company since January 1, 1936:		
Balance at January 1, 1936—subsidiary companies	573,799.62	
Consolidated net income for the year ended December 31, 1936, per Exhibit C	234,123.76	
Adjustment of reserves for Federal income taxes and contingencies provided in prior years	48,607.55	
	856,530.93	
Less: Dividend paid on preferred stock	87,500.00	
Earned surplus at December 31, 1936		769,030.93
Surplus at December 31, 1936		$865,453.83

Subject to the comments contained in the attached certificate

CONSOLIDATED STATEMENT OF INCOME AND PROFIT AND LOSS
FOR THE YEAR ENDED DECEMBER 31, 1936

EXHIBIT C

Net sales	$9,104,696.55
Operating profit before depreciation	298,928.53
Depreciation of fixed assets	46,761.43
	252,167.10
Other income	13,332.42
	265,499.52
Other charges	9,375.76
Consolidated net profit before provision for Federal income taxes	256,123.76
Provision for Federal normal income taxes	18,750.00
Consolidated net profit before provision for Federal income taxes on undistributed income	237,373.76
Provision for Federal income taxes on undistributed income	3,250.00
Consolidated net profit transferred to surplus—Exhibit B	$234,123.76

Subject to the comments contained in the attached certificate

TO THE BOARD OF DIRECTORS,
MANGEL STORES CORPORATION,
NEW YORK, N. Y.

We have made an examination of the consolidated balance sheet of the Mangel Stores Corporation and its subsidiaries as at December 31, 1936, and of the consolidated statements of surplus and income and profit and loss for the year ended December 31, 1936. In connection therewith, we examined or tested accounting records of the companies and other supporting evidence and obtained information and explanations from officers and employees of the companies; we also made a general review of the accounting methods and of the operating and income accounts for the year, but we did not make a detailed audit of the transactions.

The attached statements are subject to the final determination of liability for Federal income taxes.

In our opinion, based upon such examination, and subject to the foregoing comment and to the comments thereon, the accompanying consolidated balance sheet and related consolidated statements of surplus and income and profit and loss fairly present, in accordance with accepted principles of accounting consistently maintained by the companies during the year under review, their consolidated financial position as at December 31, 1936, and the consolidated results of their operations for the year then ended.

New York, N. Y.
February 18, 1937.

S. D. LEIDESDORF & CO.